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Retail Food Sector

Kenya Retail Sector Market Brief

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Report Highlights:
A growing supermarket industry in Kenya is providing opportunities for U.S. exporters of food and agricultural products looking at the Kenyan/East African market. Suppliers able to provide smaller quantities through consolidators should find the greatest chance for success. The retail market is viable and vibrant.

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Section I. Market Summary

- Kenya's supermarket industry is the most developed within East Africa. This level of development has favored the expansion of a highly competitive supermarket industry. Uganda's industry five years old with three foreign major chains, Shoprite (South African chain), Game (South African) and Uchumi (Kenyan) battling for dominance. Shoprite is the dominant supermarket chain in Tanzania. Both Uganda and Tanzania have many small retailers with the supermarket concept. Dominant supermarket chains (Nakumatt, Tuskys and Uchumi) in Kenya have plans to expand to Uganda, Tanzania and Rwanda.

- No official statistics are available on the structure of the food retail sector. Information on this sector is very limited and mainly sourced from press articles, interviews with key players and observations.

- Organized food retailing in Kenya accounts for *20%* of the total market share, targeting all income groups in the urban and sub-urban areas. The informal sector (kiosks, over-the counter stores and open- air markets) is the largest (70-80%) and mostly, rural based where the bulk of the population lives.

- Three local supermarket chains, Nakumatt, Tuskys and Uchumi dominate the sector in terms of volume of sales and network of retail outlets. The three have *80%* of the supermarket market share. The other 20 per cent is shared between second tier and independent stores such as Chandarana, Ukwala, Skymart, Naivasha Self Service Stores and Woolmart.

- In the last five years, the sector experienced rapid growth both in sales volume and number of retail outlets opened countrywide. The market has also experienced dynamic shifts in customer and brand loyalty. This was as a result of competitive pricing, comprehensive product range and introduction of non-traditional conveniences such as pharmacies, bookstores, automated teller machines/banking services, delicatessens, fresh produce section, bakeries and even in-store restaurants.

- As a result of the rapid growth, some of the less competitive supermarkets such as Metro Cash and Carry (South African) have closed. Unlike the Ugandan and Tanzanian markets where the South African chains, Shoprite and Game dominate, Kenyan supermarkets are strong enough to make it difficult for foreign competitors to get into the market.

- The supermarkets sell a wide range of goods from groceries to household goods, electrical appliances to furniture, toys to clothing, stationery to cosmetics. Food (dry groceries and fresh produce) represents 60% of total sales.

- The convenience, power of self-selection, competitive pricing and comprehensive product range are the primary factors influencing consumer demand.

- Generally, 80% of the products sold are locally produced and 20% imported mainly from the European Union, Middle East (mostly, Dubai; United Arab Emirates) and the Far East and South Africa. Given the distances and shipping costs involved, there are few direct imports currently arriving from the United States.

- The large expatriate community, a growing middle class (5 to 10 percent of the population) and urban population, and exposure to the western lifestyle accounts for the increased demand. The urban population is 10 to 12 per cent of the total population and tends to have more disposable income than the rural.

- Kenya's importers, given the market's price sensitivity, for the most part will normally source smaller volumes of product from suppliers; therefore, potential U.S. exporters should be prepared to sell smaller lots than is customary in the United States.

Advantages	Challenges/Opportunities
On-going restructuring of the Kenyan economy and growth is enhancing free trade. The economy grew by 6.3 per cent in 2006 up from minus 2 per cent five years ago.	Inconsistent supply of US products. Arriving products should retain a shelf-life of at least 6 months to be accepted by the retailers.
The image of imported products is positive and readily accepted. A number of US products are well known in the market e.g. Crown Products, American Garden, Heinz, and Kraft Foods.	Lack of promotion of US products in the market.
Growing trend of the retail industry due to a growing urban population and middle class. New supermarkets and hypermarkets are continuing to open, providing greater opportunities for imported products to access consumers.	US goods are not always price competitive against similar quality products from the UK, South Africa and the Middle East. Buying decisions are more price sensitive than quality conscious in this market.
Generally, the low quality, packaging and labeling of the locally produced goods compared to the imported give the latter comparative advantage.	Limited brand awareness and product awareness by the importers, consumers and the retailers, hence, the weak brand loyalty.
Existence of niche markets like organics, pet foods, food supplements, canned sea foods etc.	High tariff rates and bureaucracy involved in clearing imported food products. Together with this is the protectionism attitude and SPS restrictions.
Diversity and uniqueness of US products.	Strong local brands exist which dominate the market to the near exclusion of imported products e.g. Nestle, Cadbury, Unilever brands, beer and some dairy products.

Section II. Road Map to Entry

A. Supermarkets and Hypermarkets

Entry Strategy

On-going restructuring of the Kenyan economy is supporting increased trade. The government has opened up the market to more entrants. Product representation and personal contact is crucial for effective market coverage. This can be achieved through one or a combination of the following:

- Establishing a local distributor or representative.
- Selling through an agent or distributor or
- Joint ventures with established outlets.
- Exposing the local industry (importers) to the US market through trade shows and/or missions.
- Building business relationships with US exporters.

By stocking high volume of goods and making them readily available to the market, the Kenya-US freight time will not be an issue. Currently, distributors/agents source the US goods from either consolidators in United Arab Emirates (Dubai) or Europe.

Distribution channel

Kenya's food wholesaling and distribution is relatively simple and direct.

- There is limited direct importation from the United States. Products from the US are imported via consolidators in Dubai (United Arab Emirates), United Kingdom or suppliers in South Africa.

- Importing Companies or agents sell the goods directly to the supermarkets and/or through appointed distributors/wholesalers. They do no promotional activities, unlike the local manufacturers.

- Locally manufactured goods are sold either directly to the supermarkets and/or through appointed distributors. Apart from the wholesalers/distributors, most of the small retail shops do purchase from the bigger ones (supermarkets).

Company Profiles

The Table below provides information on major retailers involved in operation of supermarkets and hypermarkets. Trade sources estimate that there are around 200 supermarkets and 10 hypermarkets in Kenya accounting for 30 % of food retail in the country.

Retailer Type and Outlet Type	Ownership	Annual Sales (2006)	No. of Outlets	Locations (No. of outlets)	Purchasing Agent Type
Nakumatt Holdings Ltd. Supermarkets and hypermarkets Established 1985.	Local (family – business)	US $ 300 million	19 Plans underway to open 11 more outlets in Kenya, I each in Kigali (Rwanda), Arusha (Tanzania) and Uganda.	Nairobi (11) Mombasa (2) Eldoret (1) Kisumu (2) Meru (1) Eldoret (1) Kisii (1)	Directly from local manufacturers and agents 70:30 ratios of local and imported products sold.
Tusker Mattresses Ltd. (**Tuskys**) Established 1989	Local (family-owned)	US $ 176 million	12	Nairobi (7) Eldoret (1) Nakuru (1) Athi River (1) Ongata Rongai (1) Thika (1)	Directly from local suppliers and importers.
Uchumi Supermarkets and hypermarkets Established 1975	Local (Public Company – that was listed in the Nairobi Stock Exchange): currently under receivership.	US $ 79 million	14 + 1	Nairobi (10 outlets) Eldoret (1) Meru (1) Karatina (1) **Kampala – Uganda** (1: opened in Dec.2002)	Directly from local manufacturers, agents and importers. 85: 15 ratios in favor of local supplies versus imports.
Ukwala supermarket chains Established 1995	Local (family-owned	US $ 100 million	12	Nairobi (5) Kisumu (2) Eldoret (3) Nakuru (1) Kericho (1)	Directly from local suppliers.
Naivasha Self Service Stores	Local (family-owned)	US $ 44 million	7	Nairobi (2) Eldoret (1) Embu (1) Machakos (1) Naivasha (2)	Directly from local suppliers.

Competition is through pricing and comprehensive products range (local and imported).

The location of branches in strategic places encompassing a good catchment area combined with long operating hours including weekends and public holidays allows everyone especially the working person the convenience to shop. Three Nakumatt stores open 24 hours, Uchumi has extended operations in some of its stores till 10.00 pm, Tuskys and other supermarkets close at 8.30 pm after opening at 8.30 am.

Local advertising agencies and affiliates of international advertising agencies and market research companies complement this. The most widely used advertising media being the press, television and radio.

The supermarkets and hypermarkets have also introduced new and additional services within their stores such as in-store bakeries, café/food service areas, cyber cafés for internet surfing, bookstores, laundry services, banks and delicatessens to attract more customers.

B. Convenience Stores, Gas Marts, Kiosks.

Company Profiles

Retailer Name and Market Type	**Ownership**	**Annual Sales**	**No. of Outlets**	**Locations**	**Purchasing Agent Type**
Chandarana Supermarkets (Independent Stores)	Local (family-owned)	N/A	4	All within Nairobi (Yaya Center, ABC Place, Highridge and Muthaiga)	Directly from local suppliers.
Other independent stores and mini-supermarkets	Local	N/A	1 to 3 outlets	Nairobi and small trading centers at the outskirts of main town centers.	Directly from local suppliers.
Convenient stores/gas marts	Multi-national Oil Companies (Oil Libya, Caltex, Shell/BP, Total) Kobil – Local	N/A	Caltex>30 Oil Libya>40 BP>20 Total> 40 Kobil ->100	Gas stations in the all major urban centers (Nairobi, Mombasa, Eldoret, Kisumu, Nakuru, Meru)	Directly from local suppliers.

Convenience stores and gas marts sell a limited line of basic foodstuffs and imported candy, confectioneries and snack foods purchased from local distributors. The price of goods is often higher than that of the supermarkets and range of goods limited. Most of the gas marts also have fast foods service.

Entry Strategy

A local agent/distributor can ensure that products are consistently available in the market.

C. Traditional Markets

Traditional markets are characterized by small retail shops located mainly by the roadside, residential areas, places of work and rural town centers. Street hawking also falls under this category. Very basic foodstuffs and convenient household goods are sold at a "reasonable" price. The limited supply is drawn from the larger supermarkets or wholesale distributors. These shops sell all commonly demanded food and beverages, branded and unbranded, which are familiar to most customers.

Section III. Competition

- The local food industry supplies most of the products that dominate the market (bakery goods, fruit juices, snack foods, dairy products, meats, soft drinks, mineral water, beer, fresh fruits and vegetables etc.).

- The European Union (largely, the United Kingdom and Italy) is the biggest supplier of imported goods followed by the Middle East and South Africa. There is limited direct importation from the U.S.

- Multinationals like Unilever, Nestle, Cadbury, Proctor and Gamble (no longer manufacturing but a distribution center now), Cadbury, Best Foods (formerly CPC Ltd.) have processing plants in the country. Their existence makes the locally produced goods cheaper than the imported. Some of them do import similar products to meet the local demand, from their branches in either Europe or South Africa. These companies, their products and brands are a key challenge for any products competing in their market segments.

- Among the sectors that have expanded rapidly are snack foods, soups and sauces, canned foods (corned beef, Tuna Fish, beans, jams and marmalades, cherries, peanut butter), dairy products (cheese and powdered milk), fruits and fruit juices, salad dressings, vegetable oils, pet foods, health and functional foods.

- The wine market is dominated by brands from South Africa, Italy, France, Germany, Spain, and Hungary.

Products present in the market from the U.S. are snack foods, sauces, bread spreads, salad dressings and mixed nuts and some varietal Californian wines.

Section IV. Best Product Prospects

Local production of the following products is limited in terms of quantities and quality.

A: Products present in the market, which have Good Sales Potential

- Breakfast cereals
- Sauces and soups (e.g. Tomato sauce)
- Salad dressings (e.g. Mayonnaise) and vegetable oils.
- Bread spreads like peanut butter, jams and marmalades

- Confectionery items, candies, nuts, salted snacks etc.
- Infant foods
- Pet foods

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- Breakfast cereals (the dominant brand is Kellogg's imported from the UK)
- Dairy products-cheese and powdered milk (from New Zealand, and EU),
- Pet foods (from UK and the local manufacturers)
- Confectionery items, candies, nuts and salted snacks.
- Fruit Juices; supply is inconsistent and the local production does not meet the demand. The imported juice is mainly from South Africa, UAE and Europe.
- Infant foods
- Mixed nuts
- Fruit juices
- Snack foods
- Specialty wines
- Canned foods
- Health and functional foods

C: Products not Present Because They Face Significant Barriers.

Sanitary and phytosanitary requirements restrict importation of meat, poultry and related products, beans, lentils, and products derived from genetic engineering. Others like popcorn and almonds face high tariff barriers. Any imported foodstuff is required to meet specific standards as stipulated by Kenya Bureau of Standards. In the absence of these, *Codex Alimentarius* standards apply. Other regulatory agencies involved in imported foods are Department of Veterinary Services for meat and poultry products, Kenya Plant Health Inspectorate Service (KEPHIS) for bulk commodities like beans, lentils and popcorn (if imported in bulk), Ministries of Health and the Environment.

Section V. Other Relevant Reports

Exporter Guide
Country FAIRS Report
Export Certificate Report

Section VI. Post Contact and Further Information

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